

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 EUR-12 EA-07 ISO-00 AID-05 CIAE-00
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XMB-02 OPIC-03 SP-02 EPG-02 OMB-01 L-03 NSC-05
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FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 4191
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY TOKYO
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 5758

DEPT PASS EXIM, TREASURY

E.O. 11652: GDS
TAGS: EFIN, CG
SUBJECT: PARIS CLUB MEETING ON ZAIRE

REF: PARIS 17431

1. WE ARE PLEASED TO HAVE VIEWS OF CHAIRMAN OF PARIS CLUB AND TO
SEE THAT, IN AT LEAST SOME RESPECTS, THEY PARALLEL OUR OWN. WE DO
NOT, HOWEVER, FEEL THAT IT WOULD BE WISE TO COMPLETELY RESCHEDULE
ALL 1977 MATURITIES AT THIS TIME SINCE SUCH LIBERAL TERMS MIGHT:
-- BE UNNECESSARY
-- GIVE ZAIRE TOO MUCH ROPE AND THUS DISCOURAGE NEEDED REFORM
EFFORTS.

2. OUR BOP ESTIMATES AND THOSE OF THE IMF/IBRD ESSENTIALLY DIFFER
WITH REGARDS TO 1977 EXPORT RECEIPTS. WE HAVE JUST COMPLETED A
COMMODITY BY COMMODITY ANALYSIS OF PRICES FOR ZAIRE'S EXPORTS, EX-
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PORT SHIPMENTS OVER THE FIRST 4-5 MONTHS, AND THE STATE OF THE
VARIOUS EXPORT INDUSTRIES. ON THE BASIS OF THIS ANALYSIS, WE PRO-
JECT 1977 EXPORT RECEIPTS AT AROUND \$1.5 BILLION, A LEVEL HIGHER
THAN OUR PREVIOUS ESTIMATES AND THOSE OF IMF/IBRD. THE IMF FORESAW
AVERAGE AGRICULTURAL EXPORT VOLUMES IN 1977-78 FALLING TO ABOUT
64 PERCENT OF THEIR 1976 LEVEL. IN CONTRAST, PRESENT DATA INDICATES
THAT RUBBER, TIMBER, COCOA, AND TEA EXPORT SHIPMENTS ARE UP AND

MAY EXCEED LAST YEARS LEVELS. COFFEE AND PALM OIL EXPORT SHIPMENTS ARE ALSO HIGHER THAN EXPECTED AND THE PRICE PROSPECTS FOR THE AGRICULTURAL SECTOR APPEARS SOMEWHAT MORE PROMISING THAN PROJECTED BY THE IMF. FINALLY, IN A SOMEWHAT DIFFERENT VEIN, THE RECENTLY NEGOTIATED AGREEMENT BETWEEN THE GOZ AND GULF WILL INCREASE ZAIRE'S 1977 EARNINGS FROM PETROLEUM EXPORTS.

3. COFFEE PROBABLY ACCOUNTS FOR THE LARGEST PART OF THE DIFFERENCE BETWEEN THE IBRD/IMF ANALYSES AND OUR OWN. OUR ESTIMATE OF COFFEE RECEIPTS IS CONDITIONAL, I.E. IT ASSUMES THAT THE GOZ TAKES VIGOROUS AND EFFECTIVE ACTION NOT ONLY TO HALT EXPORT LEAKAGE FROM COFFEE BUT ALSO TO REPATRIATE REVENUES FROM 1976, WHEN AN ESTIMATED 30 PERCENT OF ZAIRE'S COFFEE REVENUE STAYED ABROAD. AT THE SAME TIME, OUR ESTIMATES OF ZAIRE'S 1977 RECEIPTS FROM COFFEE EXPORTS ASSUME THAT:

- BANK OF ZAIRE'S TARGET PRICE SYSTEM IS RESPECTED,
- ZAIRE RECEIVES PAYMENT IN 1977 FOR EXCEPTIONALLY LARGE (15,000 TONS) EXPORT SHIPMENTS OF DECEMBER 1976,
- ZAIRE EXPORTS AND RECEIVES PAYMENT IN 1977 FOR SOME 1976 COFFEE NOT YET SOLD ON ACCOUNT OF TRANSPORT PROBLEMS AND CONTRACT DISPUTES,
- ZAIRE'S COFFEE PRODUCTION WILL BE HIGH.

IT IS TOO SOON TO SAY WHETHER THESE ASSUMPTIONS WILL HOLD, BUT WE DO SEE SOME PROMISING SIGNS. WE KNOW WORLD MARKET PRICES ARE BEING OBTAINED IN AT LEAST SOME CASES AND WE KNOW THAT EXPORTS IN THE FIRST FOUR MONTHS EXCEEDED 33,000 TONS, A REAT THAT IF SUSTAINED WOULD BRING ANNUAL EXPORTS SHIPMENTS TO 100,000 TONS. AT THE SAME TIME, WE ARE AWARE THAT GOVERNOR SAMBWA HAS BEEN MAKING VIGOROUS EFFORTS TO ENSURE FULL REPATRIATION OF COFFEE FUNDS NOW HELD ABORAD.

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4. WE THINK THAT THE CONSTRUCTIVE ACTIONS TAKEN THUS FAR IN THE COFFEE INDUSTRY AND ELSEWHERE HAVE BEEN DUE TO THE PERCEPTION OF THE ZAIRIAN LEADERSHIP THAT GOZ PERFORMANCE WOULD SHAPE THE ATTITUDES OF THE IMF AND OTHER CREDITORS. WE NEED TO MAINTAIN THE PRESSURE FOR IMPROVED PERFORMANCE AND WE SHOULD OPPOSE RELIEF SO GENEROUS AS TO MAKE REFORM UNNECESSARY. AT THE SAME TIME, WE SHOULD AVOID LETTING THE LONDON BANKERS, WHO EXPECT TO FORMALIZE THEIR PROPOSAL TO THE GOZ IN LATE JULY, TAKE ADVANTAGE OF OUR GENEROUSITY WITHOUT MAKING A COMPARABLE DEBT RELIEF EFFORT THEMSELVES.

5. WE WOULD SUGGEST THE USG APPROACH THE PARIS CLUB CHAIRMAN ALONG THE FOLLOWING LINES: PREDICTION OF ZAIRIAN BOP, AS NOTED BY IMF IN ITS MOST RECENT REPORT, IS EXCEEDINGLY DIFFICULT UNDER ANY CIRCUMSTANCES. USUAL UNCERTAINTIES ARE COMPOUNDED AT PRESENT BECAUSE OF DIFFICULTY IN PREDICTING: (A) EFFECTIVENESS OF GOZ'S EFFORTS TO IMPROVE REPATRIATION OF EXPORT RECEIPTS, (B) AMOUNT AND TIMING OF RELIEF FROM PRIVATE BANKERS. OUR SOMEWHAT MORE OPTIMISTIC FORE-

CASTS ARE BASED ON OUR MOST RECENT ANALYSIS OF EXPORT TRENDS AND THE ASSUMPTION THAT ZAIRE WILL ASSURE FULLER REPATRIATION OF EXPORT RECEIPTS. WE THINK IT WOULD BE A MISTAKE TO OFFER RELIEF SO GENEROUS AS TO REDUCE THE PRESSURE FOR VIGOROUS ZAIRIAN REFORM EFFORTS.

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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 5758

DEPT PASS EXIM, TREASURY

AT THE SAME TIME, WE FEAR EXCEEDINGLY GENEROUS SETTLEMENT NOW MIGHT TEND TO RELIEVE PRESSURE ON PRIVATE BANKS TO OFFER DEBT RELIEF PROMPTLY AND ON TERMS COMPARABLE TO THE PARIS CLUB. WE UNDERSTAND THESE BANKS WILL BE FORMULATING THEIR POSITION TOWARD ZAIRE AT THE END OF JULY, AFTER PARIS CLUB MEETING. FROM TACTICAL POINT OF VIEW, THEREFORE, WE SEE ADVANTAGES IN IMMEDIATELY RESCHEDULING ALL INTEREST AND PRINCIPAL FOR FIRST SEMESTER 1977 AND ALL PRINCIPAL FOR THE SECOND SEMESTER. ZAIRE WOULD BE ASKED TO MAKE BEST EFFORTS TO MEET SECOND SEMESTER INTEREST PAYMENTS. THE PARIS CLUB WOULD REMAIN OPEN TO POSSIBILITY THAT IF ZAIRE'S BOP POSITION IS WORSE THAN WE THINK, SECOND SEMESTER 1977 INTEREST PAYMENTS MIGHT HAVE TO BE RESCHEDULED. THIS COULD BE DONE AT THE MEETING WHICH CHAIRMAN NOW PLANS FOR LATER THIS YEAR. THE PARIS CLUB WOULD POINT OUT, HOWEVER, THAT ATTITUDE TOWARD RESCHEDULING SECOND SEMESTER INTEREST WOULD BE DETERMINED BY: (A) ZAIRIAN PERFORMANCE IN IMPLEMENTING IMF AGREEMENT AND ASSURING FULL REPATRIATION OF EXPORT RECEIPTS, AND (B) EXTEND TO WHICH PRIVATE BANKERS

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OFFER RELIEF. WE THINK THIS APPROACH WOULD ENCOURAGE BETTER ZAIRIAN PERFORMANCE AND PREVENT PARIS CLUB RELIEF FROM BAILING OUT PRIVATE (LARGELY AMERICAN) BANKS, A GOAL WITH WHICH WE SUSPECT THE FRENCH WOULD FIND IT DIFFICULT TO DISAGREE.

6. COMMENT: FOREGOING APPROACH HAS SOME SUPPORT FROM ZAIRIAN LEADERS. BANK OF ZAIRE GOVERNOR SAMBWA HAS COMMENTED TO US THAT CONSULTATIVE GROUP MEETING MARKS BEGINNING OF A NEW "REALISM" AND THAT ZAIRE REALIZES IT MUST FULLY DOCUMENT ITS NEED FOR ASSISTANCE AND DEMONSTRATE TO ITS PARTNERS PROGRESS IN ECONOMIC REFORM. SAMBWA ALSO BELIEVES THAT IT IS IMPORTANT FOR HIS NEGOTIATIONS WITH THE PRIVATE BANKERS (SEE SEPTTEL) TO PROJECT AN IMAGE OF A RESPONSIBLE ZAIRE AND INFORMALLY HAS SUGGESTED SECOND MEETING OF THE PARIS CLUB IN OCTOBER AFTER THE SEPTEMBER REVIEW OF ZAIRIAN PERFORMANCE BY THE IBRD AND THE IMF.

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